

Message Text

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ORIGIN NEA-10

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FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV PRIORITY

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E.O. 11652: GDS

TAGS: EFIN, IMF, IS

SUBJECT: GOI CONCERN OVER IMF GOLD SALE PROFITS

REF: A. TEL AVIV 4987, B. TEL AVIV 5069

1. SUMMARY: EMBASSY SHOULD INFORM GOI THAT WE REGRET WE CANNOT SUPPORT THEM ON THIS ISSUE. USG DOES NOT SEE ANY POLITICIZATION OF IMF BY OPEC ON THIS ISSUE AS FEARED BY GOI. RATHER WE FEEL IMF CRITERIA ARE FAIR AND BEING OBJECTIVELY APPLIED FOLLOWING STANDARD ECONOMIC USAGE. TO PUSH FOR CHANGES THIS LATE IN GAME WOULD THREATEN TO TEAR APART CONSENSUS ACHIEVED WITH MOST COUNTRIES. SECRETARY OF TREASURY BLUMENTHAL PREPARED TO MAKE OUR POSITION KNOWN IF RAISED BY PRIME MINISTER IN TUESDAY MEETING. END SUMMARY.

2. EMBASSY SHOULD INFORM APPROPRIATE GOI OFFICIAL THAT IN
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U.S. VIEW IMF SITUATION DOES NOT STEM FROM OPEC ATTEMPTS TO POLITICALLY ISOLATE ISRAEL. RATHER, STANDARD ECONOMIC CRITERIA FOR DISTINGUISHING BETWEEN CATEGORIES OF COUNTRIES IN DIFFERENT DEGREES OF NEED ARE BEING OBJECTIVELY APPLIED GENERALLY ACROSS THE BOARD. FYI: THE IMF MANAGING DIRECTOR HAS SUGGESTED ONLY TWO EXCEPTIONS: THE

BAHAMAS WHERE PER CAPITA GNP IS ARTIFICIALLY INFLATED DUE TO INCOME OF U.S. CITIZENS RESIDENT THERE AND MALTA WHOSE MAJOR SOURCE OF FOREIGN EXCHANGE WILL DISAPPEAR WITH THE SCHEDULED MARCH 1979 CLOSING OF THE BRITISH BASE. U.S. WOULD PREFER ECONOMIC CRITERIA BE UNIFORMLY APPLIED WITHOUT EXCEPTION. END FYI. TO BEND THE CRITERIA AT THIS STAGE AFTER TWO YEARS OF MULTILATERAL DISCUSSIONS WOULD BE A BAD PRECEDENT.

3. RE ISRAELI OBJECTION PARA 3 REF A, USE OF 1973 AND 1974 DATA IN DETERMINING WHERE TO DRAW THE CUT-OFF WAS DUE TO FACT THIS WAS LATEST INFO AVAILABLE WHEN DISCUSSIONS BEGAN ON HOW TO RESOLVE ISSUE. TO ATTEMPT TO CHANGE THEM AT THIS LATE DATE WOULD THREATEN TO UNDO THE CONSENSUS WHICH HAS BEEN ACHIEVED IN MOST QUARTERS. MOREOVER, EVEN USING LATER DATA, ISRAEL WOULD STILL BE EXCLUDED ON BASIS OF PER CAPITA INCOME CRITERIA. RE PARA 2 REF B, ALTHOUGH ISRAEL MEETS THE RESERVES CRITERIA, UNDER THE CONCEPT US ORIGINALLY PROPOSED TO THE IMF ONE AND ONE-HALF YEARS AGO, COUNTRIES HAVE TO MEET BOTH PER CAPITA INCOME AND RESERVES CRITERIA TO BE ELIGIBLE.

4. RE PARA 2 REF B, IMF COULD NOT TREAT ISRAEL DIFFERENTLY FROM OTHER COUNTRIES SIMPLY BECAUSE A LARGE PORTION OF ITS GNP REFLECTS DEFENSE EXPENDITURES OR ON THE BASIS OF ITS CLAIM THAT THE OFFICIAL EXCHANGE RATE IS

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ARTIFICIAL. OTHER COUNTRIES ALSO HAVE SPECIAL SITUATIONS AND COULD MAKE SIMILAR SPECIAL APPEALS.

5. IN OUR VIEW IT IS TOO LATE TO OPEN THE WHOLE MATTER UP AGAIN. ANY ATTEMPTS TO EITHER CHANGE THE GENERAL CRITERIA OR PROVIDE SPECIAL EXCEPTIONS FOR ISRAEL WOULD OPEN PANDORA'S BOX, FOCUSING ATTENTION ON ISRAEL'S POSITION AND POSSIBLY RESULTING IN THE POLITICIZATION GOI FEARS.

6. GOING BEYOND SPECIFIC POINTS RAISED BY ISRAELIS, EMBASSY SHOULD BE SURE TO EMPHASIZE GENERAL U.S. POSITION ON THIS ISSUE WHICH FOLLOWS:

-- U.S. HAS CONSISTENTLY FELT THAT DIRECT DISTRIBUTION OF GOLD PROFITS THROUGH IMF TRUST FUND SHOULD BE CONFINED TO POORER COUNTRIES IN WEAKER POSITIONS AND THAT COUNTRIES WITH RELATIVELY HIGH PER CAPITA INCOMES OR RESERVES SHOULD NOT BE ELIGIBLE TO PARTICIPATE. ECONOMIC CRITERIA UTILIZED BY WITTEVEEN TO ESTABLISH LIMITATIONS ON ELIGIBILITY ARE QUITE SIMILAR TO CRITERIA PROPOSED ORIGINALLY

BY US ROUGHLY ONE AND ONE-HALF YEARS AGO, WHEN THIS

ISSUE FIRST AROSE. IT HAS BEEN OUR LONG-STANDING VIEW THAT A DISTRIBUTION TO RELATIVELY WEALTHIER COUNTRIES WOULD BE INCONSISTENT WITH THE PURPOSES OF THE TRUST FUND, WOULD SUBJECT THE IMF TO CRITICISM BY THE PUBLIC AND THE CONGRESS, AND WOULD REDUCE THE RESOURCES AVAILABLE TO THOSE COUNTRIES WITH THE GREATEST NEED. THESE CONSIDERATIONS REMAIN VALID. WE CANNOT IN GOOD CONSCIENCE CHANGE OUR POSITION AND VOTE TO INCLUDE ISRAEL AND OTHER RELATIVELY WEALTHY COUNTRIES.

7. EMBASSY SHOULD CONCLUDE ASSURING GOI THAT WE FULLY APPRECIATE ISRAEL'S PROBLEMS BUT POINT OUT THAT WE ARE DEALING WITH A TECHNICAL ECONOMIC ISSUE IN WHICH FAIRLY RIGOROUS CRITERIA HAVE TO BE MAINTAINED IN THE INTEREST
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OF OUR LARGER GOAL. SINCE ONLY U.S. DOLS 15 MILLION IS INVOLVED AT MOST, WE HOPE THE ISRAELIS WILL NOT FEEL THAT WE ARE LETTING THEM DOWN ON AN ISSUE OF MAJOR ECONOMIC IMPORTANCE. ON THE LARGER POLITICAL ISSUE YOU SHOULD ASSURE GOI THAT EXCLUSION OF ISRAEL (ALONG WITH SPAIN, GREECE AND SINGAPORE) DOES NOT REPRESENT OPEC-LED POLITICIZATION OF IMF ALONG LINES THEY BELIEVE TO HAVE OCCURRED IN U.N. BODIES. RATHER U.S. POSITION AND IMF PROPOSAL BASED SOLELY ON CRITERIA CITED PARA 6 ABOVE. GOI SHOULD BE ASSURED WE WOULD VIGOROUSLY OPPOSE ANY MOVE TO POLITICALLY ISOLATE ISRAEL OR TO DENY HER RIGHTFUL SHARE OF IMF PROCEEDS ANY TIME IN THE FUTURE. AS ISRAELI SIDE KNOWS, U.S. IS ALSO APPRECIATIVE OF ISRAEL'S MANY ECONOMIC PROBLEMS AND INTENDS TO CONTINUE OUR SUBSTANTIAL MATERIAL SUPPORT OF ISRAEL TO HELP MEET THOSE NEEDS. FYI: SECRETARY OF TREASURY BLUMENTHAL PREPARED TO STATE USG POSITION IF SUBJECT RAISED BY BEGIN IN TUESDAY MEETING.
END FYI. VANCE

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